

Summary of Projections and Recommendations

This report has been prepared pursuant to N.C. Gen. Stat. § 143B-437.55(e), by the Department of Commerce (“Commerce”), on behalf of the Economic Investment Committee (the “Committee”), which administers the **Job Development Investment Grant Program** (the “JDIG Program”). Its purpose is to provide the General Assembly with information on the minimum current funding level required for the upcoming fiscal year, necessary to honor the State’s obligations under Community Economic Development Agreements with JDIG grantees (the “CEDAs”).

The DOC’s analysis has determined that up to \$72.5 million will be required to cover JDIG obligations through FY 2020-21, reflecting JDIG grantee calendar year 2019 performance, plus a few payments not yet made for 2016, 2017, and 2018 performance. This amount reflects reductions to the maximum 2019 annual liability established for these grants, reflected in the CEDAs, which reductions are based on Commerce’s assessment of actual performance reports submitted by grantees. Table 1 provides the maximum State liability over the life of all existing JDIG grants. Future grants to be made under the JDIG Program will increase these totals.

As of March 13, 2020, in FY 2019-20, the JDIG program has paid approximately \$51.4 million for JDIG performance for grant years 2017 and 2018.

Background of JDIG Program

The JDIG Program is a performance-based economic development incentive program that provides annual grant disbursements for a period of up to 12 years, to new and expanding businesses based on a percentage of withholding taxes paid by new employees during each calendar year of the grant. The percentage of withholdings ranges from 10% to 75% (80% for awards after October 1, 2015 in Tier 1 counties). In adopting the JDIG Program in the 2001-2002 Session, the General Assembly intended "to stimulate economic activity and to create new jobs for the citizens of the State by encouraging and promoting the expansion of existing business and industry within the State and by recruiting and attracting new business and industry to the State." N.C. Gen. Stat. § 143B-437.50(1).

After extensive review and analysis of applications, and a determination that a company meets the required JDIG Program criteria, the Committee may make a JDIG award to a grantee, subject to an overall cap set by the General Assembly on future grant year liability, for the aggregate of grants made in a particular calendar year. The total amount paid out in any single grant year to all companies awarded a grant in the same calendar year is determined by the JDIG Statute. Given the gradual “ramp up” of new jobs by each company and the fact that in most years the annual cap is never reached, the maximum State liability is typically far less than the maximum annual cap.

For grants that were awarded through 2006, for projects to be located in Tier 4 or 5 counties under the William S. Lee Tax credit program (Article 3A), 25% of every grant disbursement is required to be transferred into the Utility Account of the State’s Industrial Development Fund

(the “Utility Account”) to help fund rural infrastructure, pursuant to N.C. Gen. Stat. § 143B-437.61.

As of January 1, 2007, the William S. Lee tax credit program was replaced by Tax Credits for Growing Businesses, commonly referred to as “Article 3J Credits.” Article 3J reduced the current five-tier structure to three tiers. Under this tier structure, for projects located in Tier 3 counties, 25% of the total annual grant payment, and for projects located in Tier 2 counties, 15% of the total annual grant payment, must be transferred to the Utility Account. HB117 reduced the amount transferred to the Utility Fund for projects located in a Tier 2 county to 10% of the total annual grant payment for awards after October 1, 2015.

For the purposes of this study, funds required to be transferred to the Utility Account are included as a part of the total grant liability reported. Thus, maximum liability figures provided herein include *both* the amount of the grant to be paid to each company and the amount to be transferred to the Utility Account for rural counties.

Payments under a CEDA are made annually, following each calendar year that is a grant year for the company, based on the company’s compliance with performance requirements of the CEDA, as reported to Commerce by March 1 of each year. Typically, these payments will commence the 3rd quarter following the calendar year of performance. As noted above, for this funding cycle, the amount required reflects payments to be made commencing in FY 2020-21 for calendar year 2019, plus the remaining calendar year 2016, 2017, and 2018 payments, and thus these payments will commence with the start of the fiscal year beginning on July 1, 2020. This study and the table that is attached describe the fiscal impact of the JDIG Program based on maximum possible payments for each grant year.

Funding Analysis

As of February 24, 2020, the Committee has publicly awarded 312 grants. Of these grants, 106 are required to report for 2019 performance. Of these, approximately 78 are expected to be eligible for payments in FY 2020-21. Typically, there is some time lag between the awarding of grants and the beginning of operations; 43 of the 312 grantees are not required to have created jobs for the 2019 grant reporting year (and thus will not be eligible for payment in FY 2021-22) but will create program liabilities based on jobs created and retained in future years. 138 of the 312 grantees have terminated or withdrawn from the program, and 25 of the 312 grantees have completed their grant term.

In evaluating projected liability indicated in this study, it is important to emphasize that maximum liability is stated, based on the actual maximums possible under each award. Actual costs to the State are expected to be a lesser amount, as not all companies that are awarded grants will perform at the maximum level. Businesses that miss their minimum job creation requirement may receive reduced grant payments for the year based on a weighted average demonstrating at least 80% compliance with jobs, wages, and investment requirements (for two years during the job ramp up period, at which point the company is required to be in full compliance in order to receive a payment). The CEDA also provides for termination of the grant after a period of non-performance.

Table 1. Total Maximum Liability for Existing Grants – in millions

Award Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Grand Total
2006				3.702																3.702
2007			0.196	1.076																1.272
2008			0.084																	0.084
2009	1.310	1.310	1.310	5.296	3.986	2.811	2.811													18.834
2010				2.264	1.156	1.037	0.314													4.771
2011				3.401	3.401	2.750	2.510	1.103	1.103	1.103	1.103									16.474
2012				8.829	8.829	8.685	6.878	5.692	3.445	1.673	0.196									44.227
2013			0.735	14.318	14.175	14.175	14.175	13.571	12.029	12.029	0.343	0.343								95.893
2014			6.660	14.009	12.034	12.034	12.034	12.034	12.034	12.034	11.715	0.164								104.752
2015			0.421	4.477	5.386	5.386	5.386	5.386	5.386	5.386	5.386	5.248	1.797	1.797	1.797					53.239
2016			1.470	4.459	6.287	7.293	7.312	7.331	7.350	7.350	5.600	4.603	3.863	0.375	0.375	0.375				64.043
2017			0.328	8.380	13.009	16.045	16.982	17.153	17.153	17.153	17.153	17.153	17.153	15.289	9.020	2.704	1.721			186.396
2018			0.141	3.449	9.123	12.601	16.643	19.421	20.538	20.773	20.462	20.462	19.964	19.964	17.861	11.520	1.330	1.330		215.582
2019					4.487	9.975	13.370	15.876	17.358	17.668	17.856	17.865	17.865	17.865	10.783	17.766	4.717	0.975	0.866	185.292
2020					0.071	0.153	0.257	0.606	0.852	1.017	1.376	1.579	1.579	1.579	1.579	1.579	1.166	1.166	1.166	15.725
Total	1.310	1.310	11.345	73.660	81.944	92.945	98.672	98.173	97.248	96.186	81.190	67.417	62.221	56.869	41.415	33.944	8.934	3.471	2.032	1010.285

Remaining Payments to be made in FY20-21 for previous grant years	\$13,965,000
Estimated grant year 2019 payments to be made in FY20-21	+ \$58,553,000
Total funds for JDIG payments	= \$72,518,000
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Current Balance in JDIG Reserve as of 3/13/2020	(Cash) \$20,354,290
less Transfer to Utility Fund per G.S. 143B-437.020(g) (FY19-21 Biennium)	(Utility Fund) - \$2,500,000
plus Recurring Appropriation (budget code 24609)	+ \$71,728,126
Total Funds Available for Payments	= \$89,582,416
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Total Funds Available for Payments	\$89,582,416
Total Funds for JDIG Payments	- \$72,518,000
Excess funds (shortfall) for FY20-21	= \$17,064,416